

Independent Rates Oversight Committee – IROC
December 20, 2010
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1. Roll Call

Chairperson Peugh brought the meeting to order at 10:00 a.m. Monica Musaraca called the roll and a quorum was declared. Attendance is reflected below:

Member	Present	Absent
Jim Peugh, Chair	X	
Don Billings	X	
Christopher Dull	X	
Andy Hollingworth	X	
Jack Kubota	X	
Colin Murray	X	
Irene Stallard-Rodriguez	X	
Todd Webster	X	
Gail Welch	X	
ExOfficios		
Augie Caires, Metro JPA	X	
Ken Williams, City 10	X	

Others in attendance: Roger Bailey, Director of Public Utilities; Tom Crane, Assistant Public Utilities Director; Tom Zeleny, Deputy City Attorney. Other spectators: Councilmember Lightner

2. Non-Agenda Public Comment

There were no non-agenda public comments.

3. Approval of the Special Workshop Minutes from 11/8/2010

Chairperson Peugh asked for a motion to approve the Special Workshop Minutes. Vice Chair Hollingworth moved, Committee Member Welch seconded, with two abstentions (Stallard-Rodriguez, Murray), all others in favor and the minutes were approved.

Approval of the Minutes from November 15, 2010

Chairperson Peugh asked for a motion to approve the Minutes. Committee Member Welch moved, Committee Member Kubota seconded, with three abstentions (Dull, Billings, Murray), all others in favor and the minutes were approved.

4. Chair Updates – Chairperson Peugh

- Welcomed the newest IROC member, Colin Murray. Unfortunately, Tony Collins is no longer a member of IROC.
- He acknowledged Councilmember Lightner in the audience, and referred to the recent memorandum of Council Member Lightner's Office on Sustainable Water Supply. He hopes this can be presented sometime soon. Councilmember indicated she would present with invitation.

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5. City Staff Updates

Roger Bailey, Department Director

- Went to Council in November regarding the Notice of Intent for the current Pass through rate adjustment and have received approximately 2,256 responses as of December 16. Public Hearing will be January 24 and encourage IROC members to attend the Public Hearing if possible.
- Two new Council Members have been seated, Council Member David Alvarez for District 8, and Council Member Lori Zapf for District 6.
- Continue to install Customer Billing System and is on track. We anticipate start up sometime in the June/July timeframe.

Ann Sasaki, Assistant Director, Wastewater Branch:

- Since last meeting, 3 spills for a total of 32 spills calendar year-to-date compared to 38 this time last year. Of the current 3 spills, none were public water spills. One was larger (12,000 gal) on a sewer line from the College Grove shopping area and was caused from an abundance of paper towels in the waste system creating a blockage. She noted it was found that a 15” sewer pipe transitions into an 8” pipe in that area, this will be looked in to and corrected if needed. Overall, the numbers are much better than last year.

Jim Fisher, Assistant Director, Water Operations Branch:

- Water main brakes year-to-date are 55 compared to 60 this time last year. He pointed out a main break on December 3, a 16” main break at 36th Street and K. It was an easement main, approximately 15 feet deep. Because of the condition, location and depth of this main, it was decided to cap it at each end of the easement, and are in the process of replacing out in the street. There is a change order necessary for a group job, to replace 400 feet of 16” cast iron main, and should be replaced in about a 1 week time, pending the rain.
- He shared, in regard to the 2009 IROC Annual Report section of security of the water system, over the past couple of weeks Jim Van Norman was recognized by the Department of Homeland Security Federal for his work done in cooperation with them, on safety and security of water systems. They have invited him back in February to a series of meetings, paid by the Department of Homeland Security to discuss the different aspects of water systems security.

6. Presentation on Water and Wastewater Fiscal Reserve Balances and Usage

Roger Bailey referred to a recent memo from himself to Andy Hollingworth regarding the subject matter. It was mentioned the different reserves as well as the level of those reserves on the Water and Wastewater sides. City policies have been in place making sure to maintain these reserves. He made it clear, especially the recent discussed reserves (DRES and Rate Stabilization Reserves) have restrictions and there is a tremendous cost we must cover (O&M and CIP). He added this is a very complex operation and we are making sure we collect sufficient revenue to cover the costs. He indicated there could be temptations to use the DRES monies for other things other than what it is intended for, to

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offset future rate adjustments for example. However, there is an ongoing CIP that has been presented to IROC, and concurrence has been reached that the CIP is very important and critical to the viability of the system. This has a cost associated with it which is covered by the revenues received from fees, rates, borrowed money, and selling bonds etc. He added there is a current claim as well, and we must protect that reserve in order to protect the financial integrity of our system. He asked for comments or questions:

Vice Chair Hollingworth informed the Committee Members, he and Mr. Bailey had a very good policy discussion on this issue and indicated they understand each other's point of view. He shared his views of using the unspecified funds within the 2 reserves to offset and forgo this year's 4.69% rate increase which can stimulate the economy, in addition, a large portion of the CIP Program balance is not projected to be used for approximately 10 years. He stated he believes this is a policy question for the City Council.

Committee Member Billings indicated it has been clear what the DRES was established for, and when the rate case was developed and approved and presented to the rate payers, they were informed the DRES would be used for a particular purpose. He stated he feels using the funds for other means would be inconsistent with what the rate payers were told. Secondly, he indicated he believes the way to stimulate the local economy is to maintain the public works projects, and when there is an opportunity to put pipe in the ground with a discount, this saves the rate payers money. He indicated IROC has already voted on this, but going forward with future pass-throughs, we do not inadvertently give the impression we are avoiding costs by not passing them through to them. He stated the reserves are established for a purpose and audited, and for transparency and integrity we should not raid these reserves for reasons other than what was promised.

Committee Member Kubota added if there were extra funds in the DRES after designated projects are completed, then he believes these funds should be used for the original allocation only. Mr. Bailey reiterated we currently have a CIP with a tremendous cost which must be covered. Again, these costs are covered by revenues generated from fees, bond issues, loans, etc. If there is an opportunity to use the DRES to offset our requirement to borrow more money, then this actually does help us to offset future rate adjustments. The monies in the DRES are always useful, minimizing the amount of money we must borrow then it is a positive impact on the rate payers. Rates are not set by a 10 year glance, rates are looked at annually. To the extent there is a gap, the rates will be adjusted to make sure the costs are covered.

Vice Chair Hollingworth referred to a July 2 memo from the CFO of the City, and pointed out, with regard to the current rate policy and the DRES funds, statements in the memo of using excess funds after four years, in these accounts to lower future rates for the Water and Wastewater Systems. He stated he understands the City is proposing to change policy, and reserve the DRES only for CIP and Debt Coverage Ratios. Mr. Bailey reiterated we are going to cover our CIP cost, if we had to cover 100% of our

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costs without this money, then it does have a direct impact on rate adjustments. If you reduce the cost by using some of this money to cover costs then any requested rate adjustment would subsequently be lower as a result of using some of this money to cover those costs. It is consistent with the reason why the DRES was set up initially, to offset future rate adjustments.

Chairperson Peugh indicated he feels all figures seen lately are based on the Department knowing how much water it will sell. There will be fluctuations in the water supply, so there may well be times the City will not have the income expected due to water supply shortage. He added this is not the time to justify using the funds for marginal reasons. DRES fund usage has been voted on a few times by IROC, and the use of these funds has been appropriate. Mr. Bailey stated when the rate study is complete, there is a certain amount of revenue projected that will be brought into the system, and we have sold less water over the past several years, which is less revenue collected. The revenue projection we had for each fiscal year has gone down. He added as indicated earlier, we do also have a claim and do not know the outcome to this.

Ex-Officio Williams asked for clarification whether the City Council can vote to use the DRES or increase the rates. Deputy City Attorney Tom Zeleny indicated the 218 Notice was sent out, and assuming there is not a majority protest, the Council will then have a hearing. They could adopt the rate increase in the Notice, could adopt something lower, or not adopt the rate increase at all. It would be to their discretion. With specific regard to the DRES, before it is identified as a source of revenue, an analysis would need to take place to determine how much of the monies are tied to a prior 218 Notice.

Ex-Officio Williams asked if there is enough extra money in the DRES to cover the \$25 million rate increase? Vice Chair Hollingworth then indicated funds from both the DRES and the Rate Stabilization Fund would have to be used. Committee Member Billings indicated he wants to make it clear to the rate payers that there is not a way to avoid the rate increase, it would be “deferring” the rate increase and this is important to understand. Mr. Bailey added if this money was used for the purpose to offset the rate increase, and we have a CIP Program that needs to be covered this year and next year, then without these funds we would have to borrow the money and have to make up this money somehow. He reiterated there is a policy to keep the Rate Stabilization fund at a certain level, if the money is spent it must be replenished. He recommends the level we have in the reserves should remain as is, and proceed with the adjustment as requested.

7. **Subcommittee Reports:**

- a. **Finance:** Nothing further to report.
- b. **Environmental & Technical:** Nothing to report.
- c. **Public Outreach, Education & Customer Service:**
 - Discussed the Water Purification Demonstration Project in detail, including the measurement tools and metrics using for the project as well as significant outreach to the community. Marsi Stierer, Deputy Director, Long Range

Planning & Water Resources, presented. She shared the most recent Water Purification Demonstration Project “Pure News” newsletter which has an abundance of information for the community.

8. Metro/JPA – Report Out

Nothing to report.

9. “Planned to Actual” Rate Case Projects for Wastewater

Ann Sasaki, Assistant Director, Wastewater Ops, presented. She gave a brief analysis of the use of funds raised from the last Wastewater Rate Case. She mentioned this was in effect May, 2007 (through 2008) at which time the rates were increased by 8.75% and then by 7% in 2009 – 2010. She referred to her handouts and slide presentation indicating the Rate Case is a Cash Flow Basis, money which is expended. When it was developed it was developed using 2006 dollars and construction costs were increasing significantly so built into that rate case was a 4% annual inflation rate. She noted the CIP is funded 20% cash, and 80% Bond financing.

Ms. Sasaki made note of the actual events. She indicated there was reorganization of CIP functions in 2007/2008, and the recent economy downturn has brought decreased construction costs, which is to our advantage. She then presented a summary of the expenditures. She referred to her slides and handouts pointing out line items. She noted for instance in the Rate Case between the Metro and Muni fund, we would have expended \$585M during the 4 year period, when actually only \$245.8M has been expended. She then included the expenditures for 2008-2013 because some of the projects in the Rate Case has slipped their schedule but all are expected to be complete by 2013.

She went over the highlights mentioning in the Rate Case it was projected to replace 115 miles using rehabilitation methods, to date 86.7 miles have been replaced and an additional 20 miles in the queue, so we are on track. For planned replacement projects, we anticipated replacing 50 miles, and to date we have replaced 39.3 miles and expect another 29 miles before the end of this fiscal year, so we are on track as well. She noted we are on an economic downturn, and have lower project costs compared to when we put the Rate Case together originally which has led to a substantial savings.

She indicated the Consent Decree projects are on schedule to meet their deadlines. She added some projects were delayed which gave us a chance to redesign some of them, which we came across more savings. Some projects have been cancelled due to re-evaluation of operational needs or they have been cancelled and replaced by other projects within the appropriate annual allocation. Overall, the majority of the projects proposed under the FY08-FY11 Rate Case, with the exception of the cancelled projects, will be implemented by June 2013 at a cost under the FY08-FY11 Rate Case.

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Vice Chair Hollingworth asked if there are issues regarding program controls needing to be addressed to keep the delayed projects on schedule, to avoid potential higher construction costs in the future? Ms. Sasaki reiterated some of the actual events that occurred were due to reorganization with the City, and we are working very closely with Engineering & Capital Projects (E&CP) on a monthly basis to make sure to maintain schedule.

Committee Member Billings asked if there are performance measures, penalties or levers in place with E&CP to guarantee deliverance. Ms. Sasaki answered yes, there is a Service Level Agreement with that Department identifying certain performance measures expected, but there are no penalties for failure to meet turn-around times. She restated they meet monthly to discuss all aspects of the projects. Committee Member Kubota commended the Department for the great work, dedication and transparency.

10. First Quarter Capital Improvement Program Progress Report

James Nagelvoort, Deputy Director, Project Implementation & Technical Services Division of E&CP presented. He referred to the handouts and briefly reviewed the CIP Project highlights. He also included a water & sewer mileage table and a graph which outlines what is expected to push out this year. In addition, were spreadsheets containing the forecast of expenditures in relation to all of the projects, and finally project schedules. One (1) project was listed on the newly maintained Change Order Log,. He opened for questions.

Chairperson Peugh asked if there is concern with the City cutting back personnel with delaying programs. Mr. Nagelvoort indicated it is a concern with certain departments such as Purchasing & Contracting, Real Estate Assets, etc. He added “bumping rights” are a concern, which can introduce employees that are not knowledgeable in the CIP, for example. Vice Chair Hollingworth also expressed concern with delayed projects due to construction costs being potentially higher in the future that could cause deficits later. Mr. Nagelvoort concurred, and added this is one pressure along with meeting the Consent with the Department of Public Health. He added this is why it is very important that they meet monthly to plan ahead. Committee Member Kubota then gave examples, listing several costly projects with the City, how Council Policy dictates the way the projects move along from a schedule standpoint and cost standpoint, and the rate payers need to recognize this.

Chairperson Peugh asked in regard to expenses for curb ramping in the Sewer & Water Group Job 772, for example. Mr. Nagelvoort explained Public Utilities must pay this portion due to the Americans with Disabilities Act (ADA) law. Anytime a project trenches through a travelway in the street, and the current corners of the street are not up to standard, that project must pay for it, legally. Tom Zeleny, Deputy City Attorney, indicated in general, the requirement to bring your facilities up to current ADA standard is triggered by modifications or improvements to the facility as well. Mr. Nagelvoort stated he looks forward to sharing the next Progress Report.

11. Wastewater CIP Project Prioritization Process

Guann Hwang, Deputy Director, Engineering and Program Management, provided a presentation and the Wastewater Projects Prioritization Results spreadsheet. He indicated the objective of this information is to provide the method of prioritizing Wastewater CIP projects and present the ranking results. He gave background of this task reminding IROC of their involvement with this prioritization method. With thorough effort, he indicated this is a very good starting point to move on with the Wastewater Prioritization effort. He indicated this is the final draft and are looking for IROC's endorsement.

He referred to his handouts and pointed out the general approach began with the Council Policy 800-14 which is the high level criteria that Council put out for all CIP Contracts, which was the basis for the effort. Also, there were the Sub-criteria Development, Risk-Based Analysis, and the Subject Matter Experts Involvement.

Mr. Hwang then reviewed spreadsheets listing the Council Policy Criteria, Sub-criteria, and the Sub-weight in percentage. He then went over the Wastewater Sub-criteria and the Summary of Changes. Afterward, he presented the Wastewater Project List Prioritization Results, which contained 43 items based on the merit of importance of the project. The next step would be to consider the project priorities, needs and funding requirements, looking over the next 20 years plus. He went over examples that some high ranking projects may not be ready to start in the next year or two, however they are very important projects, or are awaiting funding. He added later, based on the financial prospect, rate case and considerations, the projects will move along to make it more feasible along the line of the funding requirements. When the Wastewater CIP plan is ready, it will be presented back to IROC for feedback. He asked for questions, as well as IROC's endorsement to move on to the next step.

Vice Chair Hollingworth noted in regard to Rank 18 on the Project List, will this be problematic due to the current class-action lawsuit with the developer of the Naval Training Center? Mr. Hwang indicated he does not believe so, as the City owns the property and leases the property. Vice Chair Hollingworth added it should be considered, this could involve the City in the lawsuit. Mr. Hwang concurred.

Committee Member Billings congratulated Mr. Hwang on having such a detailed project schedule produced, built on the Council Policy. He indicated it would be beneficial to have two lists, one which are projects not optional (Consent Decree and Public Health and Safety projects for example), the other list would be projects to go through this prioritization process. He also inquired to what extent external costs are internalized in the prioritization, taking on the risk, and also asked how the inevitable changes of technology and policies are factored in. Mr. Hwang indicated all projects are in compliance, and with regard to the inevitable changes, they would take everything into consideration and make changes as necessary.

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Chairperson Peugh asked for a motion. Before moving, there was more discussion. Committee Member Billings commented he would like to see two lists as described earlier, and Chairperson Peugh indicated he would like to see an urgency grade on the projects to avoid underfunding of the CIP Program if possible. There was no motion at this time, due to more information necessary to endorse.

Mr. Hwang indicated the next step (Long Term CIP Plan) is in preparation, he will bring back to IROC and can perhaps request an action.

12. Cooperative Hydrolic Investigations Agreement with U.S. Geological Survey (USGS)

George Adrian, Principal Water Resources Specialist, provided handouts of his presentation, which were in the packet to review ahead of time. He indicated we are looking for IROC's support to collaborate with USGS and install 4 monitoring wells in the groundwater basins throughout San Diego. This would include 2 in the Chollas Creek area and 2 in the San Pasqual area.

Committee Member Billings indicated he understands this is required by State Law. Mr. Adrian concurred and described the Law SBx7-6 requiring regular and systematic groundwater elevation monitoring to demonstrate seasonal and long-term trends in groundwater elevations. The fiscal impact is \$1.76M.

Committee Member Billings made a motion to support moving forward with the contract between the City and USGS. Committee Member Dull seconded, with no abstentions, all were in favor for moving forward.

13. Follow-up Discussion from the IROC Strategic Planning Ad-Hoc Meeting of October 17, 2010: Protocol for issuance of IROC communication; Key Agenda items facing IROC; Work Products for FY2011; and IROC Independence

This item was heard out of sequence, after item 14. First, Chairperson Peugh brought up previous concerns with the Management Advisory Letter representing an individual's comments or that of all of IROC.

Vice Chair Hollingworth clarified the reason these letters are issued. He indicated the main reason is to clarify that the Department is being asked for certain information. Secondly, it prompts the Department to take action on discussed items without waiting to meet with IROC up to potentially two months time, which some cannot wait.

Committee Member Welch commented if the purpose is to clarify something being asked, perhaps there should be an "Request for Information" form rather than the format of a Management Advisory Letter.

Chairperson Peugh stated if issuing communications from an individual of IROC, it should be very clear it is indeed from the individual. Committee Member Billings

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concurred and added IROC comes together to discuss items and vet together for a reason. Chairperson Peugh reminded the members it takes time for the City staff to pull information together, and to keep this in mind with regard to requests.

Committee Member Webster suggested the subcommittees could vet within its own subcommittee and be issued from that perspective. He indicated he is only concerned when it is implied that it was vetted through the full IROC when it was not. He has no problem with any individual (or Subcommittee) sending out communications as long as it is defined in that letter it is only that individual (or Subcommittee) requesting the information.

Committee Member Billings added it is important to be very careful how to communicate, especially in writing to avoid misrepresentation. He indicated he concurs with Committee Member Welch's suggestion to have a Request for Information form, which can show who exactly is requesting information.

Chairperson Peugh noted this will be a group understanding at this point. He also added for the other bullet items on this item, a possible facilitated meeting can occur in the near future.

14. Reconsideration of IROC meeting schedules to accommodate a 3 hour monthly meeting time for IROC beginning in January, 2011: Full IROC meetings on 3rd Mondays of the month from 10:00 a.m. – 12:30 p.m.; Finance Subcommittee on 3rd Mondays of the month from 8:30 a.m. to 10:00; and no changes to subcommittees that currently meet on the 2nd Mondays of the month

This item was heard out of sequence, before item 13. After discussion, it was decided to meet for the full IROC for 2 ½ hours, rather than 3 hours beginning at 9:30 a.m. until 12:00 p.m., and holding the Finance Subcommittee meeting at 8:00 a.m., rather than 8:30, lasting until 9:30 a.m.

Vice Chair Hollingworth made a motion to change the schedule of the full IROC meeting and the schedule of the Finance Subcommittee as outlined in the above paragraph. Committee Member Billings seconded, with no abstentions all were in favor for the new schedule.

15. Discussion of the IROC's FY2010 Annual Report Development

Chairperson Peugh noted this item is not evolving very quickly and would like the Subcommittee's to prepare a list of items they would like to have incorporated in their part of the Report. He asked each Subcommittee Chair to provide this at the next meeting.

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16. Proposed Agenda Items for Next IROC Meeting:

Committee Member Webster commented he read in a letter, the IPR Demonstration Project would be fully designed by mid-December. He asked for a formal request for the next Environmental & Technical Subcommittee meeting, to have a formal review of this before it is implemented in February. He would like to look at the design of the pilot system before implementation.

17. IROC Members' Comments

None.

Mr. Bailey had two items to mention:

- He has been asked to extend an invitation to IROC to join the City and City-10 on a tour of the Colorado River - January 22-23, 2011; and the Bay Delta Water Project – February 26-27, 2011. This is being sponsored by MWD.
- Will be scheduling the next Workshop that will be based upon Debt Management, strategies and issues taken up today. The date has not yet been decided.

The meeting was adjourned at 12:19.